



INTRODUCTION AND SUMMARY

Rental housing is home to a growing share of the nation's increasingly diverse households. But even with the strong rebound in multifamily construction, tight rental markets make it difficult for low- and moderate-income renters to find housing they can afford. As a result, the number of cost-burdened renters set another record last year. Addressing the challenge of affordability in a time of rising overall demand will require greater efforts from both the public and private sectors to expand the range of rental housing options.

RECORD-SETTING GROWTH IN DEMAND

The decade-long surge in rental demand is unprecedented. In mid-2015, 43 million families and individuals lived in rental housing, up nearly 9 million from 2005—the largest gain in any 10-year period on record. In addition, the share of all US households that rent rose from 31 percent to 37 percent, its highest level since the mid-1960s.

A number of factors have fueled soaring demand. The bursting of the housing bubble played an important role, with nearly 8 million homes lost to foreclosure since the homeownership rate peaked in 2004. Household incomes have also fallen back to 1995 levels and access to mortgage credit has tightened, making the transition to homeownership more difficult for many who might otherwise buy homes.

The sharp downturn in both the economy and housing market has renewed appreciation of the benefits that renting offers. In particular, renters incur much lower moving costs than owners, enabling them to respond more easily to recent changes in employment and housing market conditions. Renters also face far less financial risk by not having a significant share of their wealth tied up in a single investment whose value can swing dramatically. And finally, renters are relieved of responsibility for and the expense of property maintenance.

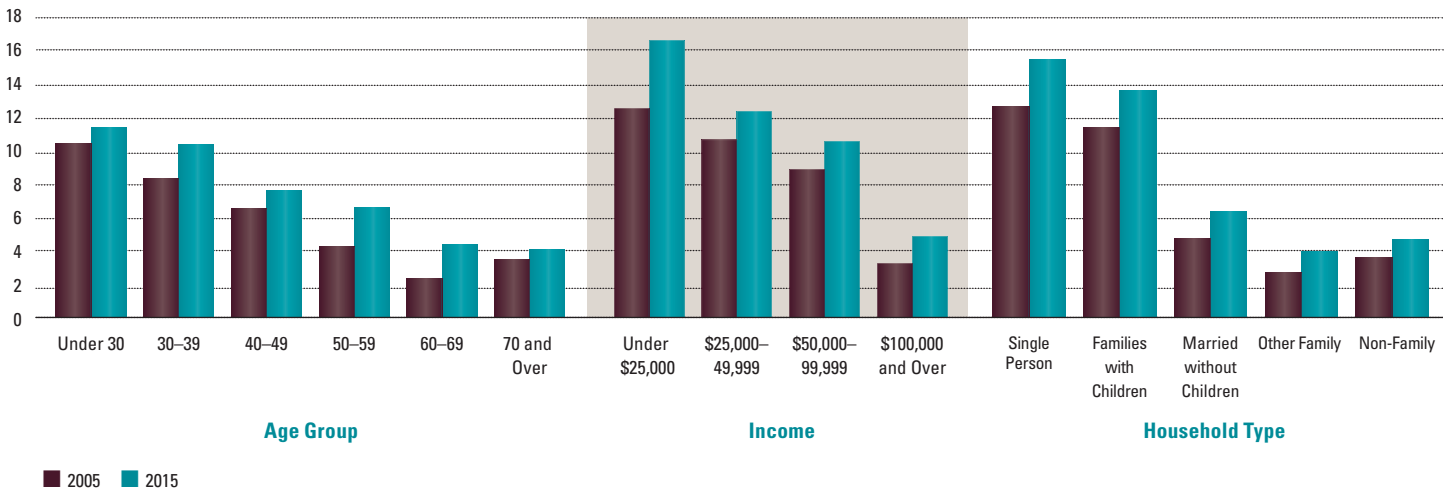
Demographic trends have made their own contribution to the growing popularity of renting. The aging of the millennial generation (born 1985–2004) has lifted the number of adults in their 20s, the stage of life when renting is most common. In addition, millennials are slower to marry and have children than previous generations, thus delaying the life events that typically precede first-time homeownership. Indeed, the number of renters would be even higher today if the Great Recession had not kept many young adults living in their parents' homes.

In combination, these trends have boosted the numbers of renters in all age, income, and household categories (**Figure 1**). The millennials pushed up the number of renters under age

FIGURE 1

The Decade-Long Increase in Renter Households Has Been Broad-Based

Renter Households (Millions)



Note: Household counts are three-year trailing averages and define children as under age 18 only.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

30 by nearly 1 million over the past decade, while members of generation X (born 1965–1984) added 3 million to the ranks of renters in their 30s and 40s, even though the population in this age range declined. The largest increase, however, was a 4.3 million jump in the number of renters in their 50s and 60s. This growth reflects the aging of baby-boomer renters (born 1946–1964) as well as declines in homeownership rates among this generation. While households in their 20s make up the single largest share, households aged 40 and over now account for a majority of all renters.

By income, the largest increase in renters—4.0 million—was among households earning less than \$25,000 annually, both because low-income households are much more likely to rent and because their numbers had swelled following the recession. But growth in the number of renters earning \$50,000 or more was nearly as large, at 3.3 million, including an increase of 1.6 million earning \$100,000 or more. While such high-income households still represent a relatively small share of renters, the rate of growth in this segment has far outpaced that of other income groups and testifies to the growing appeal of renting among households with substantial financial means.

Meanwhile, single persons living alone, the most common renter household type, have accounted for 2.9 million new renters since 2005. Families with children, including those headed by both married couples and single parents, are the second-most common type of renter household, with

their numbers increasing by 2.2 million over the decade. While the conventional image of renters is groups of young unrelated adults living together, these types of non-family households make up a relatively small share of all renters and their numbers have grown only modestly in the past 10 years.

THE DYNAMIC RENTAL HOUSING STOCK

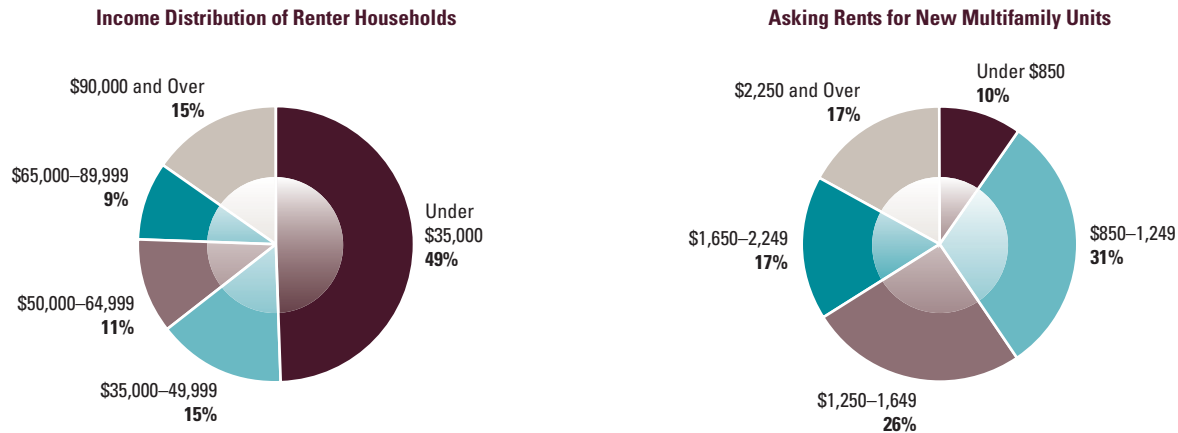
In response to record growth in demand, the rental housing stock expanded by approximately 8.2 million units in 2005–2015. While new multifamily construction was responsible for roughly a fifth of this increase, conversions of single-family homes from owner-occupancy and other uses accounted for the lion’s share of growth.

While always a sizable portion of the rental stock, the single-family share (including mobile homes) has increased dramatically since 2005, from 34 percent to 40 percent. This growth is notable not only because it is so substantial, but also because institutional investors have taken a much more active role in this market than in the past. By creating large portfolios of homes across many markets, large-scale investors are testing the waters for a new model of owning and operating scattered-site properties that could expand the range of housing options available to renters.

To date, however, the total holdings of the seven largest single-family real estate investment trusts (REITs) are

FIGURE 2

Rents for New Multifamily Units Are Out of Reach for Most Renter Households



Note: Income category cutoffs align with rent category cutoffs at the 30% of income affordability standard.
Sources: US Census Bureau, 2015 Survey of Market Absorption and 2015 Current Population Survey.

estimated to be about 150,000 units, out of more than 12 million single-families rented nationally. Individual investors thus remain the principal owners of these properties. Moreover, growth in the number of single-family rentals appears to have slowed as house prices have rebounded, reducing the financial incentive that lured investors of all sizes into this market.

Meanwhile, new rental construction is ramping up. Through the third quarter of 2015, multifamily starts were on track to add roughly 400,000 housing units, with the vast majority intended for rent. Permitting for new multifamily units also continues to climb, up at a nearly 17 percent average annual rate through the third quarter of 2015. Much of this new housing is located in large properties in urban areas and intended for upper-income renters. In 2014, roughly half of all new rentals were in buildings with 50 or more units, double the share a decade ago. And nearly six out of ten new apartments are in the principal cities of metro areas, nearly twice the share of the population in these areas.

At the same time, the median asking rent for new market-rate apartments hit \$1,372 last year, a 26 percent increase from 2012 and well above what the typical renter could afford under the 30-percent-of-income standard. Indeed, only 10 percent of newly constructed units had asking rents under \$850, a level that about half of all renters could afford (Figure 2).

PRESSURES ON THE LOW-COST SUPPLY

For the roughly one in five renters earning less than \$15,000 annually, rents would have to be under \$400 to be affordable. Between 2003 and 2013, new construction added only 5 percent to the stock of housing renting at these levels, while conversions from owner-occupancy added just under 2 percent. Downward filtering of higher-cost units contributed 11 percent of the growth in the lowest-cost stock over the decade.

But because housing units with such low rents are vulnerable to deterioration and demolition, 11 percent of these rentals were permanently lost from the stock by 2013, offsetting the additions from filtering.

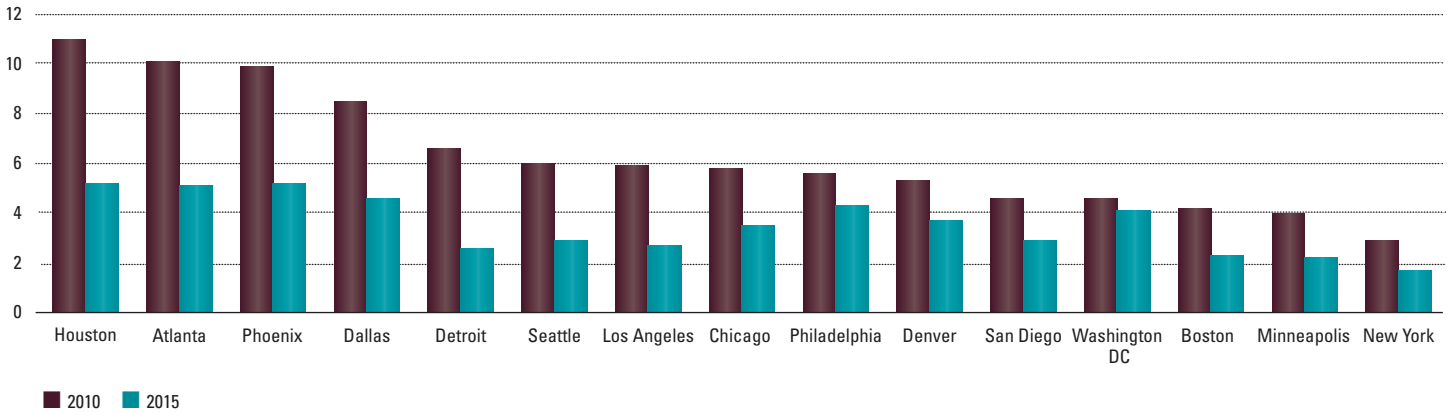
On net, the number of low-cost rental units increased just 10 percent in 2003–2013 while the number of low-income renter households competing for that housing rose by 40 percent. Similarly, the net gain in moderately priced units (with rents of \$400–799) was 12 percent, while the increase in renter households that could afford only these units was 31 percent.

While filtering of housing to lower rent levels is an important mechanism for expanding the supply, it has not made up for the losses of low-cost rentals or matched the strong growth in low- and moderate-income renters. Moreover, strong rental demand among higher-income households is likely to slow the net filtering of units to lower rent levels.

FIGURE 3

Vacancy Rates Have Fallen Sharply in Markets Across the Country

Rental Vacancy Rate (Percent)



Notes: Estimates are based on a sample of investment-grade properties. Data for 2010 are from the fourth quarter. Data for 2015 are as of the third quarter.
Source: JCHS tabulations of MPF Research data.

PERSISTENT MARKET TIGHTENING

After the Great Recession took hold in 2007, the national vacancy rate soared to record highs and, for the first time in decades, brought nominal rent increases to a near standstill in 2010. Since then, however, the rental market has steadily tightened as growth in demand has outpaced additions to supply. With vacancy rates now at their lowest point since 1985, rents are rising 3.5 percent annually in real terms—the fastest pace in nearly 30 years.

Rental market tightening is evident across the country (Figure 3). MPF Research reports that the rental vacancy rate for professionally managed apartments in the third quarter of 2015 was below 5 percent in nearly three-quarters of the nation’s 50 largest markets and above 7 percent in only one. Rent increases are similarly widespread, with 21 of the 50 largest metros posting real gains of 5 percent or more, and 38 of these metros posting gains of at least 3 percent. At the high end, rents in San Francisco, Portland, and Denver were up 10 percent or more. At the low end, rent increases in Baltimore, Virginia Beach, Pittsburgh, and Washington, DC, were under 2 percent.

With vacancy rates down and rents up, net income from rental properties has increased sharply and helped to push up apartment property values. After undergoing a boom and bust similar in magnitude to single-family home prices, rental property values now top their previous high by 33 percent. This strong rebound has brought private lenders back into the multifamily finance market, with banks and thrifts lead-

ing the way. Lending by life insurance companies and other institutional investors, as well as through commercial mortgage backed securities (CMBS), has also picked up, helping to lift total multifamily originations in 2014 almost a third above the 2007 peak. With the increase in private lending, the government-backed share of originations shrank from nearly two-thirds in 2009 to 36 percent in 2014.

The multifamily construction boom raises the specter of overbuilding in at least some metro areas. So far, though, growth in supply in most markets seems generally in line with increases in occupied apartment units, although rent increases in Washington, DC—one of the first metros to see a strong rebound in construction—have slowed. And with the pipeline still expanding, the possibility of overbuilding in the next few years remains. Record-high rental property values also bear watching, since a sharp correction would be highly disruptive at a time when there is strong demand for multifamily financing.

AFFORDABILITY CHALLENGES AT RECORD LEVELS

Between 2001 and 2014, real rents rose 7 percent while household incomes fell by 9 percent. In combination, these trends pushed the number of cost-burdened renters (paying more than 30 percent of income for housing) up from 14.8 million to a new high of 21.3 million. Even worse, the number of these households with severe burdens (paying more than half of income for housing) jumped from 7.5 million to 11.4 million, also setting a record.

While the shares of cost-burdened renters have declined slightly from their 2011 peaks, this improvement resulted from an increase in the share of high-income households opting to rent rather than a reduction in the number of renters with cost burdens. Overall, 49 percent of renters were burdened in 2014, including 26 percent with severe burdens. Both of these shares have increased substantially since 2001, when they stood at 41 percent and 20 percent, respectively.

Although most common among lowest-income households, cost burdens are an increasing concern for moderate-income renters. Some 84 percent of renters earning under \$15,000 a year were cost burdened in 2014, up slightly from 80 percent in 2001. Of these lowest-income households, 72 percent had severe burdens. Among those earning \$15,000–29,999, however, the cost-burdened share rose from 69 percent in 2001 to 77 percent in 2014, with a 10 percentage-point increase in the incidence of severe burdens accounting for all of the change. The increase in cost-burdened shares among households earning \$30,000–44,999 was even larger, from 37 percent to 48 percent, although only 10 percent of these households had severe burdens in 2014.

While very large shares of lowest-income households are cost-burdened in all markets, the situation of moderate-income households varies across metros. For example, about

85 percent of renters with incomes under \$15,000 living in Detroit and 83 percent of those living in Washington, DC, have cost burdens. However, more than 80 percent of Washington renters earning \$30,000–44,999 are also cost burdened, compared with 45 percent of Detroit renters with similar incomes (**Figure 4**).

Meanwhile, the households most likely to be severely cost burdened have dependent children and/or rely on a single income, including 38 percent of single-parent families and 32 percent of persons living alone. By age group, renters aged 75 and over have the highest incidence of severe burdens, at 33 percent. Large shares of minorities are also severely burdened, including 33 percent of blacks and 30 percent of Hispanics, compared with 23 percent of whites.

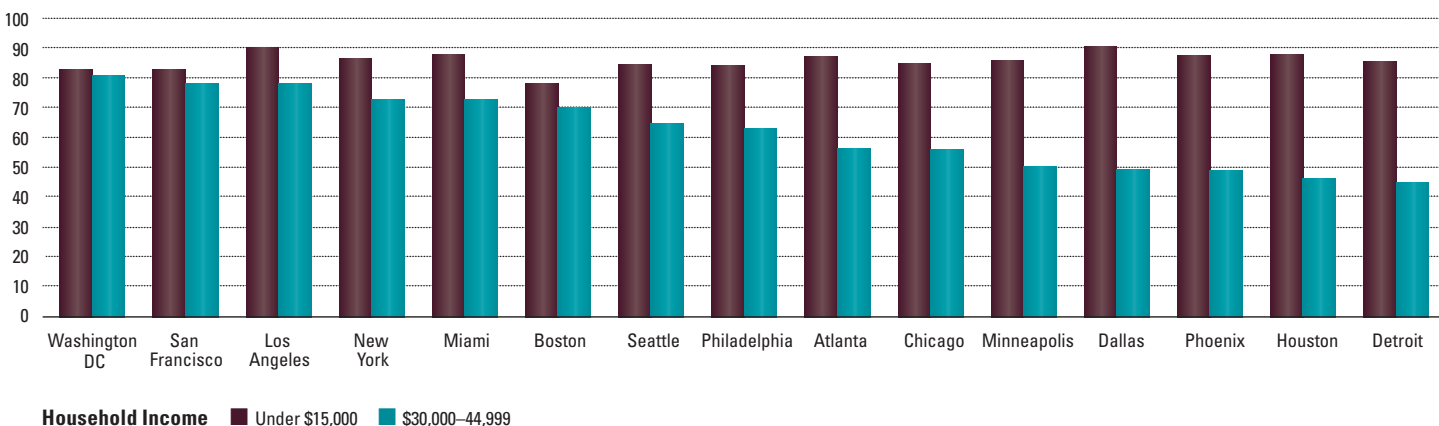
The consequences of severe cost burdens are far-reaching. In 2014, households in the lowest expenditure quartile (a proxy for low income) who paid more than half their incomes for housing spent 38 percent less on food and 55 percent less on healthcare. Working-age renters in the lowest expenditure quartile also put 42 percent less toward retirement savings than otherwise similar renters living in affordable housing.

Moreover, one out of every eight housing units that rent for under \$600 a month—within range for lowest-income rent-

FIGURE 4

While Most Lowest-Income Households Have Cost Burdens, the Cost-Burdened Share of Moderate-Income Renters Varies Widely Across Markets

Share of Renters with Cost Burdens (Percent)



Notes: Cost-burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have cost burdens, while households paying no cash rent are assumed to be without burdens. Source: JCHS tabulations of US Census Bureau, 2014 American Community Survey.

ers—is physically inadequate, forcing a tradeoff between affordability and housing quality. There is also growing evidence that households lacking stable, decent-quality housing are more vulnerable to health problems and developmental delays among children, with obvious spillover effects for the healthcare and educational systems.

Given that the Great Recession contributed so profoundly to the spread of housing cost burdens, the question naturally arises whether the current economic recovery and rental housing expansion will ultimately improve affordability. Projections suggest that demographic forces alone are likely to increase the number of severely cost-burdened renters by 1.3 million over the next decade—due largely to rapid growth in the number of older households and Hispanic households. Even under the most optimistic economic conditions (assuming that incomes grow one percentage point faster than rents each year), the number of severely cost-burdened renters would decline by only 170,000 households by 2025. But if rent increases outpace income growth by that same amount, the number of cost-burdened renters would increase by some 3 million over today’s record levels.

HOUSING POLICY CONSIDERATIONS

While program criteria differ, very low-income households (earning up to 50 percent of the median household income in the area where they live) are generally eligible for federal housing assistance. But because housing assistance is not an entitlement, just over one in four income-eligible households actually benefit from these programs.

Following the Great Recession, the number of renter households with incomes under \$30,000 shot up from 15.5 million in 2007 to 19.1 million in 2013 (Figure 5). While the number of assisted families and individuals did rise over this period, the increase was a modest 393,000. The US Department of Housing and Urban Development (HUD) estimates that 56 percent of income-eligible but unassisted renters with very low incomes have worst case needs, i.e., pay more than half their incomes for housing and/or live in severely inadequate units. The number of renters living in these circumstances thus grew from 5.9 million to 7.7 million over this period.

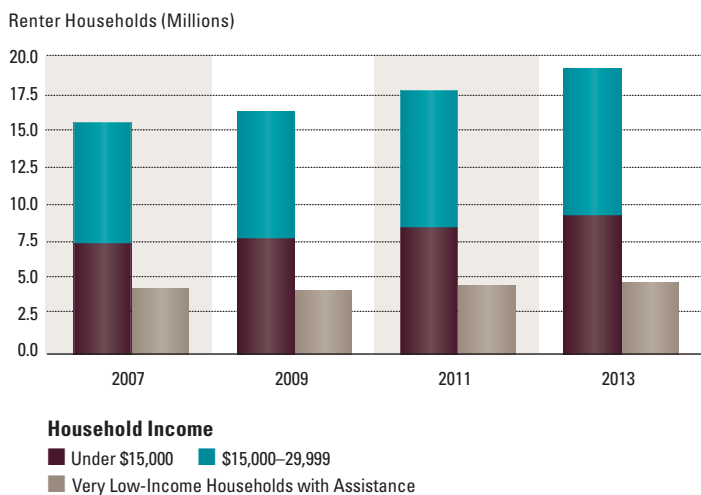
The failure of housing assistance to keep up with need partly reflects the caps on nondefense discretionary spending imposed under the 2011 Budget Control Act, which have left real funding for HUD’s three largest rental assistance programs unchanged since 2008. The Low Income Housing Tax Credit (LIHTC) program remains the principal means of both expanding and preserving the affordable rental supply. As a tax expenditure rather than a budget line item, LIHTC funding has not been subject to the same cutbacks as other federal programs and so has increased modestly over the last seven years. Still, the LIHTC program has supported only 76,000 additional affordable units annually on average in recent years, with about half of its funding going to acquisition and rehabilitation of existing subsidized developments and half to new construction.

The HOME program, which funds a range of state and local housing programs, has been subject to draconian cuts, with funding down by more than half from FY2010 to FY2015 in real terms. The latest Congressional budget proposals call for further substantial reductions. Since HOME funding is often used in conjunction with tax credits to help subsidize housing for very low-income households, these cutbacks also undermine the LIHTC program’s ability to support development and preservation of affordable rentals.

Despite its success over the years, the LIHTC program has been criticized for its relatively shallow subsidies, which do not produce housing affordable to the neediest households

FIGURE 5

Growth in the Number of Lowest-Income Renters Far Outstrips Increases in Assisted Households



Notes: Household incomes are adjusted for inflation using the CPI-U for All Items. Household counts by income are based on three-year trailing averages. Very low-income renter households have incomes up to 50% of local area medians.

Sources: JCHS tabulations of US Census Bureau, Current Population Surveys; US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress.

(earning up to 30 percent of area median incomes) without additional rental assistance. To meet this concern, HUD and others have proposed that the LIHTC program allow income averaging that would balance the portion of units reserved for extremely low-income tenants with a larger share for slightly higher-income tenants. This approach holds promise for addressing the need for affordable housing across a broader spectrum of incomes in high-cost markets.

The LIHTC program has also come under scrutiny for contributing to the concentration of assisted housing in racially segregated, high-poverty neighborhoods. However, larger subsidies are needed to develop affordable housing in areas with higher land costs. In addition, the LIHTC program must balance the goal of expanding housing in communities that are thriving against the goal of improving conditions in poor neighborhoods. Nevertheless, state allocating agencies must be more attuned to opportunities to expand access to affordable housing in low-poverty communities, particularly through the incentives and criteria outlined in their Qualified Allocation Plans.

The tax credits have also been an important vehicle for preserving subsidized rentals at risk of conversion to market-rate housing. The Urban Institute has estimated that one out of every six assisted housing units whose subsidy contracts expire in the next two years are in areas with poverty rates under 10 percent, while another quarter are in neighborhoods with poverty rates of 10–20 percent. Preserving the affordability of these developments would be a cost-effective means of maintaining housing options for low-income renters in higher-opportunity neighborhoods.

Along with tax credits, housing choice vouchers have been the principal vehicle for expanding housing assistance in recent decades. Vouchers allow recipients to search for housing among the broad range of choices offered by the private rental stock. As with the LIHTC program, however, voucher holders often end up living in high-poverty neighborhoods for a variety of reasons—the barriers to searching for housing across many neighborhoods, landlords' reluctance to accept vouchers, users' poor credit histories and limited savings for security deposits, and the tight supply and higher cost of housing in higher-income neighborhoods. A HUD pilot program that sets rent limits at the zip code level (rather than applying one limit throughout a metro area) has had success in fostering moves away from high-poverty areas. Counseling voucher users about rental opportunities would also be useful, as would offering landlords greater incentives to participate in the program.

While additional federal funding is vital, state and local governments have critical roles to play because they make key decisions about how funds are put to use. Nonfederal revenues can also be used for gap financing to extend the reach of federal programs. Perhaps most important, though, state and local governments establish the land use regulations that shape the opportunities for and costs of building different types of rental housing. As it is, many suburban areas restrict the construction of higher-density, and therefore lower-cost, housing. It is absolutely essential to remove unnecessary obstacles that prevent the private sector from providing a full range of rental housing options in all types of communities.

THE OUTLOOK

The increase in renting is evident across all types of American households, regardless of age and income. Despite the conversion of millions of single-family homes to rentals and an upsurge in multifamily construction, the supply has not responded fully to the rising tide of demand. As a result, rents have climbed at the same time that household incomes have yet to recover from substantial declines over the past decade. Together these trends have led to record numbers of renters paying excessive amounts of income for housing, with little prospect for meaningful improvement.

The challenge now facing the country is to ensure that a sufficient and appropriate supply of rental housing is available for a diversity of households and in a diversity of locations. While the private market has proven capable of expanding the higher-end rental stock, developers have only limited opportunities to meet the needs of lowest-income households without subsidies that close the large gap between construction costs and what these renters can afford to pay. In many high-cost markets, moderate-income households face affordability challenges as well.

Policymakers urgently need to consider the extent and form of housing assistance that can stem the rapid growth in cost-burdened households. Beyond affordability, they also need to promote development of a wider range of housing options so that more renter households can find homes that suit their needs and in communities offering good schools and access to jobs. It will take concerted efforts by all levels of government to capitalize on the capabilities of the private and not-for-profit sectors to reach this goal.